

**Alaska Department of Revenue
Tax Division**

On June 1, 2004, the Lieutenant Governor filed Department of Revenue regulations 15 AAC 20.540 relating to transition rules for taxpayers that begin or cease oil and gas activities in Alaska. The regulations have an effective date of July 1, 2004 and will be published in Register 170 in the July 2004 AAC supplement. The official marked-up version of the regulations incorporating edits recommended by the Regulations Section of the Department of Law is available by request from the Tax Division by calling 907-269-6620. For informational purposes, a clean version of the regulations incorporating those changes is set out below.

15 AAC 20 is amended by adding a new section to read:

15 AAC 20.540. Calculation of tax for taxpayers subject to AS 43.20.073 and 43.20.072 in a tax year. A taxpayer, whose unitary business begins or ceases the oil and gas activities described in AS 43.20.072(a) in a tax year, is subject to both AS 43.20.072 and AS 43.20.073 during the transition year and shall calculate tax for that year as follows:

(1) the taxpayer shall determine income that is subject to tax at ordinary rates before any net operating loss deduction by adding

(A) taxable income under AS 43.20.073, for the entire tax year, multiplied by a ratio, the numerator of which is the number of days the taxpayer was subject to AS 43.20.073 and the denominator of which is the number of days in the tax year; and

(B) taxable income under AS 43.20.072 for the entire tax year, multiplied by a ratio, the numerator of which is the number of days the taxpayer was subject to AS 43.20.072 and the denominator of which is the number of days in the tax year;

(2) the taxpayer shall determine its charitable contribution limitation by applying 26 U.S.C. 170 (Internal Revenue Code section 170) based upon the taxable income calculated under (1) of this section;

(3) the taxpayer shall determine capital gains subject to the alternative rate under AS 43.20.021(c) by adding

(A) capital gains calculated under AS 43.20.073, for the entire tax year, multiplied by a ratio, the numerator of which is the number of days the taxpayer was subject to AS 43.20.073 and the denominator of which is the number of days in the tax year; and

(B) capital gains calculated under AS 43.20.072 for the entire tax year, multiplied by a ratio, the numerator of which is the number of days the taxpayer was subject to AS 43.20.072 and the denominator of which is the number of days in the tax year;

(4) the taxpayer shall apportion allowable federal credits and taxes imposed under AS 43.20.021 by using an apportionment factor that is the sum of

(A) the entire tax year's apportionment factor calculated under AS 43.19.010 (Multistate Tax Compact), Article IV.9, multiplied by a ratio, the numerator of which is the number of days the taxpayer was subject to AS 43.20.073 and the denominator of which is the number of days in the tax year; and

(B) the entire tax year's apportionment factor calculated under AS 43.20.072, multiplied by a ratio, the numerator of which is the number of days the

taxpayer was subject to AS 43.20.072 and the denominator of which is the number of days in the tax year;

(5) the taxpayer shall apply the following depreciation rules:

(A) a taxpayer that ceases to be subject to AS 43.20.072 and that becomes subject to AS 43.20.073 shall use the

(i) taxpayer's federal depreciation expense in determining federal taxable income under (1)(A) of this section; and

(ii) depreciation methods used in the prior year's return in determining federal taxable income under subsection (1)(B) of this section;

(B) a taxpayer that ceases to be subject to AS 43.20.073 and that becomes subject to AS 43.20.072 shall use the

(i) depreciation methods used in the prior year's return in determining federal taxable income under subsection (1)(A) of this section; and

(ii) depreciation methods under 15 AAC 20.480 as if those methods had been in place on the date of acquisition of each asset in determining federal taxable income under subsection (1)(B) of this section;

(C) the new depreciation methods that the taxpayer uses under this section are the taxpayer's depreciation methods for future tax periods;

(D) a change in depreciation method resulting from a taxpayer's change between AS 43.20.072 and 43.20.073 is not a change in accounting method. (Eff. 7/1/04, Register 170)

Authority: AS 43.05.080 AS 43.20.072 AS 43.20.073
AS 43.19.010